

Message Text

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 CIAE-00 DODE-00 PM-05 H-01
INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02
SS-15 USIA-06 AID-05 CEA-01 COME-00 EB-08 FRB-03
IO-13 NEA-10 OPIC-03 TRSE-00 LAB-04 SIL-01
AGRE-00 OMB-01 /118 W
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R 220930Z DEC 77
FM AMCONSUL ZURICH
TO SECSTATE WASHDC 2615
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMEMBASSY BERN POUCH

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USEC ALSO FOR EMB
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PASS TREAS AND FRB

EO 11652: N/A
TAGS: EFIN, SZ
SUBJ: THE SWISS: FRANKLY ON THE DOLLAR

1. SUMMARY: SWISS PERCEPTIONS OF APPROPRIATENESS
USG POLICY ON DOLLAR EXCHANGE RATES CONTINUE TO
DIFFER SIGNIFICANTLY FROM OURS. CONGEN AND EMBASSY
EFFORTS OBTAIN GREATER UNDERSTANDING AND ACCEPTANCE
THESE POLICIES, CIRCULATION POLICY STATEMENTS AND
DIRECT CONTACTS BETWEEN MEMBERS SWISS ECONOMIC AND
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BANKING ESTABLISHMENT AND RESPONSIBLE US OFFICIALS HAVE
MADE LITTLE HEADWAY IN CHANGING SWISS PERCEPTIONS.
AS YEAR DRAWS TO A CLOSE, BRINGING WITH IT DEPRECIATION
OF DOLLAR AGAINST THE SWISS FRANC TO NEW RECORD LOWS,
WE THOUGHT A ROUND-UP OF SWISS VIEWS, BASED ON CONVER-
SATIONS OVER PAST FEW MONTHS WITH SWISS NATIONAL BANK
OFFICIALS, COMMERCIAL BANKERS AND BUSINESSMEN, AND A

MONITORING OF ZURICH ECONOMIC PRESS - WHICH ATTEMPTS
ANALYZE REASONS UNDERLYING SWISS CONCERNS AND REVIEW
REMEDIES WHICH ARE BEING SUGGESTED BY SWISS FOR
PRESENT SITUATION - MIGHT BE OF SOME INTEREST TO
WASHINGTON AGENCIES. END SUMMARY

2. THE CURRENT PERCEPTION OF SWISS ESTABLISHMENT OF AN ECONOMIC
MALAISE IN THE US IS BOTH RESULT OF AND CONTRIBUTING CAUSE FOR
PRECIPITIOUS FALL OF DOLLAR AGAINST SWISS FRANC OVER LAST SIX
MONTHS. SWISS ARE, OF COURSE, WORRIED ABOUT DIRECT IMPACT OF
A CHEAPER DOLLAR ON THEIR COUNTRY - ON COMPETITIVENESS OF THEIR
EXPORTS IN AN IMPORTANT MARKET AND ON ABILITY OF THEIR MONETARY
AUTHORITIES TO CONTROL MONETARY GROWTH AND INFLATION. BUT SWISS
WORRIES GO BEYOND THIS. SINCE THEIR ECONOMY IS SMALL, OPEN ONE,
SWISS FEEL VERY VULNERABLE TO EBB AND FLOW OF US ECONOMIC POLICIES.
"CAN SWISS BUSINESS SURVIVE US POLICIES?" ASKED CIBA GEIGY AND
SWISS VORORT CHAIRMAN LOUIS VON PLANTA IN TITLE OF HIS DEC 8
ADDRESS TO SWISS-AMERICAN CHAMBER OF COMMERCE IN ZURICH. ACCORDINGLY,
SWISS ARE APPREHENSIVE ABOUT UNDERLYING CAUSES FOR DOLLAR'S
WEAKNESS AND WHAT THESE COULD SIGNIFY FOR WORLD ECONOMY.

3. REGARDING CAUSES, SWISS AGREE THAT OBSERVABLE DIFFERENCES IN
GROWTH AND INFLATION RATES BETWEEN US AND EUROPEAN HARD CURRENCY
COUNTRIES REQUIRE SOME ADJUSTMENT IN EXCHANGE RATES, BUT NOT ANYTHING
LIKE 20 PERCENT DROP IN DOLLAR VIS-A-VIS SWISS FRANC WHICH HAS
OCCURRED FROM EARLY JULY TO MID-DEC. BANKERS AND BUSINESSMEN HERE
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SEE MAIN CAUSE FOR SPECULATIVE ATTACKS ON DOLLAR AS UNCERTAINTY
REGARDING US ECONOMIC POLICIES AND APPOINTMENTS. MOST IMPORTANT OF
THESE QUESTION MARKS IS FATE OF ADMINISTRATIONS ENERGY PROGRAM.
IN SWISS VIEW, EARLY ENACTMENT OF MEANINGFUL ENERGY PROGRAM IS
NEEDED TO PROVIDE SOLID HOPE FOR STABILIZING, AND EVENTUALLY
REDUCING, ENERGY-RELATED PORTION OF HUGE US TRADE DEFICIT.

4. ANOTHER ISSUE LOOMING LARGE IN SWISS MINDS IS FUTURE COURSE
OF US MONETARY AND FISCAL POLICIES. WITH REGARD TO FORMER,
QUESTION OF WHETHER OR NOT THERE WILL BE CHANGE AT HELM OF FEDERAL
RESERVE
SYSTEM HAS ASSUMED AN INORDINATE SYMBOLIC IMPORTANCE TO SWISS
BANKERS. ON FISCAL SIDE, SWISS ARE WAITING TO SEE WHAT TYPE OF
TAX REDUCTION/REFORM PACKAGE WILL BE PROPOSED AND ENACTED AS AN
INDICATION OF OUTLOOK FOR US BUSINESS INVESTMENT.

5. SWISS OFFER TWO POSSIBLE EXPLANATIONS AS TO WHY THESE QUESTIONS
ARE STILL OUTSTANDING: FIRST IS FEAR THAT, DESPITE GOOD INTENTIONS,
ADMINISTRATION DOES NOT HAVE SUFFICIENT CLOUT TO OBTAIN PUBLIC
SUPPORT FOR AN CONGRESSIONAL APPROVAL OF ESSENTIAL ECONOMIC PROGRAMS.
FOLLOWERS OF THIS THESIS PERCEIVE A LEADERSHIP VACUUM IN WASHINGTON
AFFORDING EXCESSIVE POWER TO PAROCHIAL AND PROTECTIONIST

INTERESTS. A RECENT ARTICLE BY NEUE ZURCHER ZEITUNG JOURNALIST,
JEAN-PIERRE BLANCPAIN, (POUCHED TO EUR/CE) REFLECTS THIS VIEW.
ANOTHER THEORY - HELD BY THOSE WHO TERM US EXCHANGE RATE POLICY
ONE OF "MALIGN NEGLECT" - SEES USG PURPOSELY TRYING TO DEPRESS
DOLLAR IN ORDER OBTAIN TRADE ADVANTAGES, PRIMARILY AGAINST JAPAN.

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6. REGARDLESS OF EXPLANATIONS OFFERED FOR UNCERTAINTY CONCERNING
USG POLICIES, THERE IS MUCH AGREEMENT ON DANGERS THAT CAN RESULT
FROM A WEAK DOLLAR:

- HIGHER PETROLEUM PRICES AS THE OPEC COUNTRIES SEEK TO OFFSET
DECLINE IN VALUE OF THEIR DOLLAR-DENOMINATED EXPORT AND ASSETS;

-- CONTINUED RELUCTANCE BY FOREIGN INVESTORS TO PLACE MONEY IN
WALL STREET FOR FEAR THAT A FURTHER DECLINE IN DOLLAR AGAINST

THEIR CURRENCIES WILL EXCEED ANY LIKELY DIVIDENDS AND CAPITAL
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GAINS;

-- A MORE DIFFICULT TASK FOR SURPLUS COUNTRIES TO UNDERTAKE
STIMULATORY ECONOMIC POLICIES;

-- INCREASED INFLATION IN US AND REST OF WORLD; AND

-- ENCOURAGEMENT OF OTHER COUNTRIES TO FORESAKE COOPERATION
FOR BEGGAR-THY-NEIGHBOR SOLUTIONS TO INTERNATIONAL ECONOMIC PROBLEMS.

MOST PESSIMISTIC RAISE SPECTOR OF RENEWED WORLDWIDE RECESSION AND
EVEN A POSSIBLE INTERNATIONAL FINANCIAL COLLAPSE.

7. WHAT DO SWISS PRESCRIBE? PRINCIPLE REMEDY OFFERED IS CALL
FOR US TO END UNCERTAINTY WITH REGARD TO ECONOMIC POLICIES AND
APPOINTMENTS NOTED ABOVE. POSITIVE ACTION ON ENERGY IS CONSIDERED
KEY. SWISS ALSO CALL FOR INCREASED INTERNATIONAL FINANCIAL
COOPERATION, PARTICULARLY BETWEEN CENTRAL BANKS. BY THIS, SWISS
MEAN REGULAR AND SUBSTANTIAL INTERVENTION IN FOREIGN EXCHANGE
MARKET BY FEDERAL RESERVE. SWISS BANKERS WE HAVE TALKED TO ASSERT
THEY ARE NOT ADVOCATING INTERVENTION TO DEFEND ECONOMICALLY UN-
REALISTIC PARITIES, BUT RATHER TO OFFSET SPECULATIVE CURRENCY
MOVEMENTS WHICH DO NOT REFLECT ACTUAL ECONOMIC CONDITIONS. MOREOVER,
WILLINGNESS TO UNDERTAKE COORDINATED INTERVENTION AND US CONGRESSIONA
L
RATIFICATION OF WITTEVEEN FACILITY ARE LOOKED UPON AS SYMBOLIC
OF US INTEREST IN ECONOMIC COOPERATION WITH SWITZ AND OTHER FREE
MARKET ECONOMIES AS PLEDGED AT RAMBOUILLET SUMMIT.

8. TO REPLY TO SWISS CONCERNS ABOUT FALLING DOLLAR, CONSULATE
OFFICERS, IN COORDINATION WITH EMBASSY, HAVE REPEATEDLY REFERRED TO
ADMINISTRATION STATEMENTS ON DESIRABILITY OF MAINTAINING A STRONG
US CURRENCY. WE HAVE DESCRIBED EXCEPTIONAL STEPS TAKEN BY PRESIDENT
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AND OTHER HIGH OFFICIALS TO SECURE PASSAGE OF ENERGY LEGISLATION
AND EXPRESSED CONFIDENCE THAT THERE WILL BE ANSWERS TO MANY OF
SWISS' QUESTIONS IN NEAR FUTURE. WE HAVE EXPLAINED WHY A SIG-
NIFICANT INCREASE IN OIL PRICES AT THIS TIME APPEARS MOST UNLIKELY
AND WHY IT IS IN ECONOMIC SELF INTEREST OF OPEC COUNTRIES TO
STAY WITH DOLLAR. WE HAVE TRIED TO DOWNPLAY EXCESSIVE SYMBOLIC
IMPORTANCE THAT MANY SWISS SEEM TO ATTACH TO PERSONALITIES RATHER
THAN TO INSTITUTIONS. WE HAVE STRESSED BASICALLY FAVORABLE OUTLOOK

FOR US ECONOMY (A FACT SWISS ACKNOWLEDGE) AND IMPORTANCE THAT PROSPEROUS US ECONOMY HAS AS A LOCOMOTIVE OF GROWTH FOR OTHERS. FINALLY, WE HAVE NOTED THAT DOLLAR DECLINE IS NOT NEARLY SO PRONOUNCED WHEN MEASURED ON TRADE-WEIGHTED BASIS AND THAT OUR TRADE DEFICIT SHOULD BE CONSIDERED IN TERMS OF SIZE OF US ECONOMY AND OUR ABILITY TO ATTRACT CAPITAL IMPORTS.

9. COMMENT: DESPITE CONGEN AND EMBASSY'S CONTINUING EFFORTS OBTAIN GREATER UNDERSTANDING AND ACCEPTANCE USG POLICIES WE HAVE NOT BEEN VERY SUCCESSFUL IN ALLAYING SWISS FEARS. PREVAILING VIEW IN ZURICH FINANCIAL AND BUSINESS ESTABLISHMENT AT YEAR-END IS THAT USG ACTION ON ENERGY PROBLEM AND A CLEAR SIGN OF OUR WILLINGNESS TO COOPERATE WITH SWISS AND GERMAN CENTRAL BANKS TO COUNTERACT ERRATIC MOVEMENTS IN EXCHANGE RATES ARE NEEDED TO TURN SITUATION AROUND.
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Message Attributes

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Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
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Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
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